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Text:

C O N F I D E N T I A L ANKARA 00374

SIPDIS

CX:

ACTION: ECON

INFO: PA RAO FAS MGT PMA FCS POL DCM AMB CONS

DISSEMINATION: ECON /1

CHARGE: PROG

APPROVED: AMB:RWILSON

DRAFTED: ECON:CLTURNER

CLEARED: A/DCM:KDEBLAUW, ECON:DBEPPLER

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FM AMEMBASSY ANKARA

TO RUEHC/SECSTATE WASHDC 5373

RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 000374

SIPDIS

E.O. 12958: DECL: 02/25/2018

TAGS: [EFIN](#) [EAID](#) [EINV](#) [TU](#)

SUBJECT: TURKEY-WORLD BANK COUNTRY PARTNERSHIP STRATEGY

Classified By: Ambassador Ross Wilson for reasons 1.4(b,d)

11. (C) Summary. The Ambassador joined World Bank Country Director for Turkey Ulrich Zachau February 14 to discuss the World Bank's role in Turkey and the upcoming release of the Country Partnership Strategy (CPS), outlined below, which is embargoed until February 28. The CPS outlines a four-year \$6.2 billion investment in Turkey that would be one of the bank's largest loan programs. The World Bank negotiated the CPS with the Government of Turkey (GOT) based on the GOT's Ninth Development Plan (2007-2013) and the Prime Minister's Action Plan. The CPS programs will be demand driven to address goals set jointly by the GOT and WB. The Ambassador noted the WB and other International Financial Institutions play an important role in augmenting the role of the European Union. If, as expected, there are potholes in Turkey-EU relations in the near term, the WB can still provide significant resources in Turkey. The Ambassador noted the WB provides a balance and different perspective than the EU or IMF in Turkey and applauded the WB's excellent reputation. End summary.

12. (C) Zachau and his key sector directors outlined the basics of the CPS, which include a heavy concentration in energy projects including advisory services, policy support, sectoral privatization, and clean energy programs. Zachau noted Turkey's growing role as a regional leader and one of the world's 20 largest economies. He added that the goal of CPS for FY08-11 is for the WB to be a partner with Turkey in realizing its development vision--to achieve fast and sustained growth with equity--through full integration into the government's formulated development strategy. Key goals will be working to improve competitiveness and employment opportunities; balance human and social development; and provide efficient, high-quality public services.

13. (C) On energy, Zachau noted the long-awaited 2008 electricity price increases were a positive sign that will boost confidence of those considering an investment in Turkey's energy privatization programs. He added that

Turkey's energy market needs more private sector involvement and a more efficient public sector. Zachau anticipates that electricity distribution tenders will take much longer than the six months estimated by the GOT, noting that investors would prefer to see privatization of both distribution and generation simultaneously. He mentioned a World Bank project to rehabilitate electricity transmission lines to stop significant transmission losses. Municipalities seeking this assistance would need to create borrowing entities to borrow from WB.

14. (C) Zachau noted there is scant coverage of specific environmental projects in the CPS, adding the WB plans to rely on opportunities like the World Water Forum to be held in Istanbul in March 2009 to propose specific programs from which the GOT could benefit. Zachau noted that Turkey has used its ground water inefficiently and need analytic work on irrigation and water use to rebalance its water tables. Although it is not a component of the current CPS, Zachau said air and water quality studies would bring a high return on investment, adding the WB will seek ways to encourage these programs with the GOT.

15. (C) On the economy, the World Bank wants to see continued public sector reforms, especially in the area of labor and social security. The GOT has long promised these reforms and then racked up a series of delays. On judicial reform, the WB wants to produce a strategy paper to align the new procedural code with international norms and provide more training of judges. Turkey's judicial information sharing is impressive: courts are connected on line, and prosecutors and judges can research precedent cases and share information. In practice, the judicial process lacks transparency. The Ambassador agreed with Zachau on the need for an alternate dispute resolution mechanism. Teaching judges the value of ADR and putting such a system in place could help Turkey work through the giant backlog of pending cases. The Ambassador noted that the State Department has undertaken a number of programs to show Turkish judges how plea bargaining and other ADR mechanisms work. He noted that USG resources are limited, and WB funds could have a bigger impact.

16. (C) On human development, the World Bank would like to see a more liberal labor market, finite but broad access to unemployment benefits, and reduction in routinely-large severance packages. Non-financial costs of employment, such as day care and medical care, could be outsourced to cut costs, although it would be tough to convince unions to agree. The WB supports social assistance reform, with a program like Head Start to get kids to preschool and programs to keep them in school longer. The WB also notes that universal health insurance reform is needed. The GOT covers premiums for 20% of the country's poorest citizens, and 50% of Turks can pay premiums through their employers, leaving 30% of Turks outside the system. A planned shift at Ministry of Health to assign primary doctors and promote a preventative care system should help cut nationwide costs. The Ambassador and Zachau bemoaned the lack of depth in ministries. There are some impressive leaders, but decision-making authority does not trickle down into the rank and file.

17. (C) The Ambassador agreed with Zachau that all proposals would need support from the highest levels of the GOT for sustained success. The 2009 local elections will start to consume much GOT time and attention late this year, and it would be preferable to get started with WB projects as soon as possible for maximum value. On the economic team, it is unclear whether Deputy PM Nazim Ekren is performing his "super minister" role on the economy or coordinating the efforts of the Finance and Treasury Ministries. International investors looking for promised reforms expect to see results and Turkey remains reliant on foreign money to finance its current account deficit.

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